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TOWN OF HARPSWELL, MAINE

Annual Financial Report

For the Year Ended December 31, 2018

TOWN OF HARPSWELL, MAINE
Annual Financial Report
For the Year Ended December 31, 2018

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Proven Expertise and Integrity

INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Harpswell
Harpswell, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Harpswell, Maine, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town of Harpswell, Maine's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Harpswell, Maine, as of December 31, 2018, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB related information on pages 5 through 13 and 23 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Harpswell, Maine's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2019, on our consideration of the Town of Harpswell, Maine's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Harpswell, Maine's internal control over financial reporting and compliance.

RHR Smith & Company

Buxton, Maine
January 31, 2019

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis
December 31, 2018

As management of the Town of Harpswell, Maine, we present this narrative to provide you with an overview and analysis of our annual financial statements for the year ended December 31, 2018. This information, in conjunction with the notes to the financial statements, can be considered when reading the Town's financial statements.

Financial Highlights

- ❖ The total net position (total assets less liabilities) of the Town of Harpswell is \$14,639,973. Total assets include the costs, net of accumulated depreciation, of the Town's capital assets which totaled \$14,208,211 at December 31, 2018. Capital assets include the Town's infrastructure assets, (i.e., roads and dry hydrants), as well as Town-owned land, buildings and equipment, and an easement.
- ❖ The Statement of Activities shows an increase in net position of \$464,783 for the fiscal year.
- ❖ During 2018, the Town repaid \$421,000 of principal on its long-term borrowings as scheduled and incurred interest of \$45,220 on its long and short-term borrowings.
- ❖ The 2017 Town Meeting authorized an amount not to exceed \$5 million to fund the demolition of an industrial pier at Mitchell Field. Work on this project began in December of 2017 and was completed in 2018, under budget, at a total cost, including financing, of \$3,098,154.
- ❖ The ending fund balance for all governmental funds is \$5,225,487. The ending fund balance for the General Fund is \$4,058,516, a decrease of \$294,934 from the previous year. Of this balance, \$684,202 is assigned for specific purposes, and \$20,444 is nonspendable. This leaves an unassigned balance of \$3,353,870, which is sufficient for compliance with the Town's Fund Balance Policy. This Policy requires the Town to maintain a minimum unassigned fund balance of one month, 8.33% (with a target of two months) of operating expenditures, defined as the total of prior year's general fund expenditures less any expenditure made from reserve and special project funds.
- ❖ In addition to its General Fund, the Town has funds restricted for capital projects, which include an interest-bearing dedicated fund for emergency vehicle purchases (\$347,771); a fund for road projects (\$244,359); and a fund which represents the excess proceeds from the bonds which funded the demolition of the Mitchell Field pier (\$521,887). The Town also has funds for its special revenue activities, which include recreation programs (\$52,015) and grants (\$939).

Overview of Financial Statements

The Town of Harpswell's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad overview of the Town of Harpswell's finances, in a manner similar to private-sector business. Financial information is presented in two statements – *statement of net position* and *statement of activities*.

The *statement of net position* presents information about the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information about how the Town's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Both of the government-wide financial statements distinguish functions of the Town of Harpswell that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Town of Harpswell include general government, public works (roads, solid waste disposal, snow removal), protection and safety (law enforcement, fire protection, rescue services), health and welfare, culture and recreation, debt service and capital expenses.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Harpswell, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town of Harpswell maintains six individual governmental funds. Information for the General Fund, the Road Project Fund, and the Mitchell Field Pier Demolition Fund are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in the report.

The Town of Harpswell adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-48 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual statements and schedules can be found on pages 51-54 of this report.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Statement of Net Position Information

The following information is a condensed version of the Statement of Net Position.

Net Position

	Governmental Activities	
	<u>2018</u>	<u>2017</u>
Assets:		
Current & other assets	\$5,483,995	\$ 5,372,417
Receivable-Harpswell Coastal Academy	70,000	80,000
Capital assets	14,208,211	11,554,951
Total Assets	<u>19,762,206</u>	<u>17,007,368</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	56,451	67,499
Liabilities:		
Bond anticipation note	-	(475,000)
Long-term debt outstanding	(4,791,000)	(1,712,000)
Other liabilities	(336,256)	(684,880)
Total Liabilities	<u>(5,127,256)</u>	<u>(2,871,880)</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions & post employment benefits	(51,428)	(27,797)
Net Position:		
Net investment in capital assets	9,417,221	9,333,765
Restricted	1,114,956	386,964
Unrestricted	4,107,806	4,454,461
Total Net Position	<u>\$14,639,973</u>	<u>\$14,175,190</u>

The Town's Total Net Position increased by \$464,783 during 2018.

Asset changes included an increase in cash balances of \$171,119. Capital assets increased in 2018 primarily as a result of the removal of the pier at Mitchell Field that is classified as a land improvement to the Mitchell Field property.

The Bond Anticipation Note (BAN) provided short-term financing for the Mitchell Field pier demolition project in 2017 and 2018. The Town repaid the \$1,225,000 BAN with long-term general obligation bonds on April 9, 2018.

Long-term debt obligations increased in 2018 by \$3,079,000, as a new \$3,500,000 borrowing for the pier removal was offset by scheduled principal repayments of \$421,000. Other long-term liabilities in 2018 include the Town's proportionate share of the net pension liability of the Maine Public Employees Retirement System (\$93,217) and other post employment benefits (\$156,850). Additionally, other liabilities decreased primarily due to a significant reduction in prepaid taxes and because payments for services provided to the Town in 2018 were made prior to December 31, 2018.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

64.3% of the Town's Net Position at December 31, 2018 is represented by its capital assets less any outstanding debt that was used to acquire those assets. Although the Town's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$1,114,956 of the 2018 Net Position (7.6%) is restricted for capital projects and grants. This includes \$347,771 for the purchase of emergency services vehicles, \$244,359 for capital road projects, and \$521,887 in excess proceeds which will be used for principal and interest payments relating to the borrowing for the demolition of the Mitchell Field pier. Unrestricted Net Position includes amounts assigned or committed for expenditures for certain purposes in subsequent years.

Statement of Activities Information

The following information is a condensed version of the Statement of Activities.

		Governmental	
		Activities	
		<u>2018</u>	<u>2017</u>
Revenues:			
Program Revenues			
Charges for services		\$237,597	\$219,194
Operating grants & contributions		196,111	107,144
General Revenues			
Property and excise taxes		13,353,917	13,124,488
Intergovernmental		208,555	175,257
Interest earned		18,509	11,174
Other		493,872	429,648
Total revenues		<u>14,508,561</u>	<u>14,066,905</u>
Expenses:			
General government		1,563,724	1,476,645
Public works		1,137,995	1,079,794
Protection and safety		1,434,658	1,294,404
Health and welfare		33,316	30,856
Culture and recreation		367,796	366,810
Education		7,749,463	7,744,079
County taxes		1,318,020	1,294,498
Overlay/abatements		6,977	1,468
Interest on long-term debt		45,220	47,996
Capital and special projects		386,609	261,120
Total expenses		<u>14,043,778</u>	<u>13,597,670</u>
Increase/(decrease)in net position		<u>\$464,783</u>	<u>\$469,235</u>

Governmental Activities

Governmental activities increased the Town's net position by \$464,783 as a 3.2% increase in expenses was offset by a 3.1% increase in revenues. Total program revenues increased by \$107,370 or 32.9% on a year to year basis, with the increase occurring in operating grants and contributions (\$88,967). The increase in grants resulted primarily from the Town obtaining two significant Cumberland County Development Block Grants, one for the Orr's/Bailey Islands Fire station renovations and one for a home repair program for seniors in 2017 with a substantial portion of both projects occurring in 2018. Additionally, the Town received a coastal communities grant and a harbor management access grant.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Property and excise tax revenues increased from 2017 by \$176,809 and \$52,620, respectively. The mil rate increased from \$6.46 to \$6.48. Recycling center and disposal fees increased by \$32,626, primarily due to an increase in use. The State homestead exemption reimbursement increased by \$20,544.

Expenses relating to capital and special projects in the Statement of Activities exclude \$3,066,818 in capital outlays which have been capitalized in the Statement of Net Position.

To aid in the understanding of the Statement of Activities, some additional explanation is provided. Please note that the format differs from that of the Statement of Revenues, Expenditures, and Changes in Fund Balances. Expenses for each activity are listed in the left-most column with revenues generated by that particular activity reported to the right. Subtracting one from the other results in a Net (Expense)/Revenue. This format provides information about the relative financial burden on the Town's taxpayers of each activity. It should be noted, however, that while these revenues may be generated by specific activities, the Town does not have dedicated revenue sources, except for recreation programs whose revenues, to the extent they exceed program costs, are retained for future programs. Accordingly, revenues from specific activities are deposited to the Town's General Fund, as are all tax payments received. From this fund, the Town makes all its expenditures.

Examples of activities which produce some level of revenue are:

<i>Public works</i>	Transfer Station fees and recycling revenues Local Road Assistance
<i>Health and welfare</i>	General Assistance state reimbursement
<i>Cultural and recreational</i>	Fees for recreation programs and bandstand donations
<i>Capital and special projects</i>	Grants for restricted projects

All other governmental revenues are reported as general revenues. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

Net Cost of Governmental Activities

The following information is a breakdown of each of the Town's major functional activities.

Net Cost of Governmental Activities

Function / Program	Total Cost of Services		Net Cost of Services	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
General government	\$1,563,724	\$1,476,645	\$1,563,724	\$1,476,645
Public works	1,137,995	1,079,794	889,062	863,179
Protection and safety	1,434,658	1,294,404	1,434,658	1,294,404
Health and welfare	33,316	30,856	23,996	23,084
Culture and recreation	367,796	366,810	328,194	315,585
Education	7,749,463	7,744,079	7,749,463	7,744,079
County taxes	1,318,020	1,294,498	1,318,020	1,294,498
Overlay/abatements	6,977	1,468	6,977	1,468
Interest on long-term debt	45,220	47,996	45,220	47,996
Capital and special projects	386,609	261,120	250,756	210,394
Total governmental activities	<u>\$14,043,778</u>	<u>\$13,597,670</u>	<u>\$13,610,070</u>	<u>\$13,271,332</u>

Total Cost of Services and Net Cost of Services increased from 2017 to 2018 by 3.2% and 2.5%, respectively.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of December 31, 2018, the Town's governmental fund balance totaled \$5,225,487.

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial performance of the Town as a whole is reflected in its governmental funds.

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances available for spending. Governmental funds report the differences between their assets, liabilities and deferred inflows as fund balances. Nonspendable, committed, restricted and assigned amounts reflect that which is not available to be spent while unassigned amounts reflect amounts that are.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's General Fund balance decreased from \$4,353,450 in 2017 to \$4,058,516 in 2018. The decrease was attributable to (1) an increase in protection and safety expenses, (2) use of unassigned fund balance to reduce the tax commitment, (3) transfer of \$150,000 to the emergency vehicles fund, \$200,000 to the road project fund and \$13,600 for recreation programs, (4) use of unassigned fund balance for land improvements (\$25,000) and to fund the contingency account (\$30,000).

2018 property tax revenue increased by \$176,809 relative to 2017. Total appropriations increased by \$210,058 with increases primarily in total municipal appropriations of \$206,958 (3.9%).

The Town experienced an increase in non-property tax revenue sources in 2018, primarily in excise tax receipts, the Town's largest source of non-property tax revenue, which increased by \$52,620. There was also an increase in recycling center and disposal fees (\$32,626), and in the State Homestead exemption reimbursement (\$20,544).

The 2018 mil rate increased to \$6.48 from \$6.46 and the property tax base expanded by approximately \$23.4 million. Of the 2018 commitment, 97.48% was collected prior to year-end. A healthy collection rate has been experienced for several years.

Unexpended Appropriations. Notable unexpended appropriations lapsing to the General Fund in 2018 occurred in the areas of municipal fire assistance (\$56,684), employee benefits (\$30,196), and the Planning Department (\$15,860). With respect to municipal fire assistance for the volunteer entities, the planned hiring of per diem firefighters was delayed from 2017 to 2018 and took longer than expected. Additionally \$48,000 was carried over into 2018 for firefighting equipment for the new firefighters and the funds were allowed to lapse. The employee benefits budget was not fully utilized as eligible employees declined to participate in the Town's health insurance program and 457 deferred compensation plan. The Planning Department budget was unexpended primarily due to the contracted planner also serving as the project manager for the Mitchell Field pier demolition project (budgeted elsewhere) and therefore contracted services was not fully utilized.

Overlay. Of the \$112,065 raised for overlay, \$6,977 was used to provide abatements and the remainder lapsed to the General Fund.

Contingency. A special Town Meeting increased the contingency fund by \$30,000 from unassigned fund balance and \$38,308 of contingency use was approved by Selectmen to cover general administration, clerk, roads, recycling, and street light articles.

Harpswell maintains a healthy General Fund balance, which when supplemented with tax anticipation note financing, is used to fund expenditures until such time as property tax revenue is collected.

The annual Town Meeting, which is held in March of each year, votes on the budget as recommended by the Selectmen.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2018, the Town's investment in capital assets, net of accumulated depreciation, was \$14,208,211 and its outstanding debt \$4,785,000. All outstanding debt was incurred for capital purposes. At the end of 2017, outstanding debt included a Bond Anticipation Note against which \$475,000 had been drawn. This Note was used to fund on a short-term basis, the demolition of the Mitchell Field pier which was constructed by the U.S. Navy in the 1950's and transferred to the Town in 2001. The Note was replaced by 20-year General Obligation Bonds of the Town of Harpswell in April 2018 at which time the outstanding balance of the BAN of \$1,225,000 was repaid.

The 2018 Bonds have a principal amount of \$3.5 million and sold at a premium of \$112,953. While the 2018 bonds have a 20-year term, the first principal payment is due in 2021. Only interest on the bonds is payable in 2019 and 2020. The cost of the demolition project was significantly lower than expected, totaling \$3.08 million. The unexpended proceeds from the 2018 bonds will be used to pay interest and principal in the period 2019 to 2021.

The remaining outstanding debt of \$1,285,000 funded either road projects (\$1,165,000) or the emergency services vehicles account (\$120,000). Additionally, the Town is a party to a capital lease which funded, in part, the purchase of certain media equipment. A lease balance of \$6,000 was outstanding at the end of 2018 and repayment will be funded by a grant from the holder of its cable franchise.

Net Investment in Capital Assets

	Capital Assets		Accumulated Depreciation		Net Investment in Capital Assets	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$5,282,273	\$2,164,271	-	-	\$5,282,273	2,164,271
Construction in progress	37,946	350,750	-	-	37,946	350,750
Other non-depreciable assets	281,900	281,900	-	-	281,900	281,900
Buildings and building Improvements	4,237,097	4,237,097	(2,542,618)	(2,452,209)	1,694,479	1,784,888
Equipment, vehicles and furniture	2,923,588	2,837,689	(1,220,253)	(1,148,110)	1,703,335	1,689,579
Infrastructure	8,051,129	7,964,988	(2,842,425)	(2,681,425)	5,208,704	5,283,563

The 2018 increase in land reflects the completion of the demolition project at Mitchell Field. The cost of this project, \$3.1 million, has been recorded as a land improvement. Included in those costs is the 2017 balance of the construction in progress account. The Town also incurred approximately \$20,000 for land improvements at the Town office. Remaining in construction in progress account at the end of 2018 are engineering costs relating to 3 projects expected to be completed in 2019.

Additions to Equipment, vehicles and furniture in 2018 include a backhoe for use at the Transfer Station (\$109,200) and an airboat to be used by the Town's Marine Patrol (\$79,814). The Town also disposed of equipment with total costs of \$103,115 and accumulated depreciation of \$89,580.

Infrastructure assets increased by \$86,141 in 2018 as the Town replaced the boat launch at Mackerel Cove.

Looking forward, the Town will continue to assess the need to upgrade the infrastructure at Mitchell Field, a major asset with business development possibilities. Additionally, the Town anticipates replacing the industrial pier at Mitchell Field with a seasonal float and ramp facility serving a wide range of users. This facility may cost in the neighborhood of \$320,000 and the Town has received a commitment for grant funding for half that amount. Further, construction of a boat launch at Mitchell Field is under consideration which is estimated to cost approximately \$394,500. The Town would seek grant funding for this project as well.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Another major capital project under consideration is the construction of a fire station in a central location near the Town office. While initial site planning and architectural design has not yet been completed, it is thought that the station may cost as much as \$2 to \$3 million.

The recycling center building is approaching 40 years old. Rehabilitation of the building, which will follow the assessment of the neighboring site for the central fire station, may cost \$225,000. Additionally, the Town will consider moving to a four compactor system at the recycling center, the cost of which is estimated to be \$650,000 to \$750,000. Engineering costs and parking lot improvements could be an additional \$125,000 to \$150,000.

Finally, the heating, ventilation and air conditioning system needs to be upgraded. A preliminary estimate of this work is \$150,000 to \$250,000.

Generally, the Town expects that its long-term capital needs, including its ongoing road rehabilitation and emergency vehicles programs, will be funded with a combination of existing capital reserves and annual appropriations to increase those reserves. Upon completion of the pier demolition project, the Town will re-assess its debt capacity and determine whether its capital needs should be funded with additional borrowing.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

A key economic indicator for the Town is the amount collected for vehicle excise and registration fees. In fiscal year 2018, we continued to exceed estimates, by collecting almost \$1.35 million. This is a trend we will keep a close eye on as these collections represent the single largest non-property tax revenue source used to offset the tax commitment.

We are beginning to see a slight uptick in the amount of revenue sharing received from the State of Maine, and will continue to watch this figure under a new administration in Augusta to see if there will be some further upward movement on what municipalities can expect to receive from the State of Maine to offset local property taxes. The Town's fund balance policy was amended in 2015 to allow for greater flexibility in terms of the amount of fund balance that can be used to offset anticipated tax increases. The proposed 2019 budget is currently expected to use \$470,000 of undesignated fund balance to keep the proposed budget in compliance with LD 1. The proposed budget does not include any new borrowing, which has been the norm for the last several years with the exception of the pier demolition borrowing in 2017. The rationale has been to not add to the Town's debt obligation until there is further decline in that obligation before the impact of the pier demolition debt begins to affect taxpayers in 2021. While the Town had authority to borrow up to \$5M for the pier demolition project, the Town needed to borrow \$3.5M, and experienced no surprise contingencies during the course of the demolition project which could have added to project costs. However, now that the dilapidated pier has been removed, there is interest in funding future capital improvements for a town dock as well as a boat launch at the site. The Town is seeking grant funds in both instances to keep costs down for local taxpayers.

In 2019, the Town is expected to have its municipal firefighter model fully implemented to supplement volunteer service providers. There has been a proposed policy change reflected in the 2019 budget that would allow for two firefighters to become regular part-time employees, making them eligible for certain benefits, including healthcare. This is seen as a necessary step for retention and attraction purposes.

Workers' compensation coverage for Town employees continues to remain high in 2019 as a result of both workplace injuries and the addition of municipal firefighters to the payroll. If the injury factor is reduced over the next couple of years, then risk management costs should decrease accordingly. While there is a planning effort underway to design, in concept, a new centralized emergency services building for fire and rescue services, the need for actual construction may not be urgent if the municipal firefighter model is effective in its delivery of service from current stations located within the Town.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

As we look to fiscal year 2019 and beyond, the Town must not lose sight that it could be facing multiple future capital projects, such as a centralized fire and rescue building, improvements to Mitchell Field and, Recycling Center upgrades for the expansion of compactors, improvements to parking, and major building renovations. These projects are in addition to the Town's capital road improvement plan and to the purchase of emergency services vehicles for use by the Town and by the three fire and rescue entities serving the Town.

A new high school is being built in MSAD # 75 of which Harpswell high school students will benefit from attending. Construction of the building is well underway with opening scheduled for the fall of 2020. The effect of this project on Harpswell's tax rate is likely to be seen in the latter part of 2020.

The real estate market for waterfront property remains very active. The Town added over \$20 million of taxable value to its tax rolls in 2018, and expects at least \$10M of new taxable value to be added in 2019. While the Town's tax rate may rise in 2019, it is expected to be manageable and not of significant magnitude given the estimated amounts of non-property tax revenues and fund balance to be used to offset increased appropriations.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Selectmen's Office at P. O. Box 39, 263 Mountain Road, Harpswell, Maine 04079-0039 or by phone at (207) 833-5771.

BASIC FINANCIAL STATEMENTS

TOWN OF HARPSWELL, MAINE
Statement of Net Position
December 31, 2018

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,998,086
Receivables:	
Taxes	302,652
Liens	52,717
Accounts	110,096
Prepaid items	20,444
Receivable from Harpswell Coastal Academy	70,000
Capital assets:	
Capital assets, not being depreciated	5,602,119
Other capital assets, net of accumulated depreciation	8,606,092
Total assets	19,762,206
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	56,451
Total deferred outflows of resources	56,451
LIABILITIES	
Accounts payable and other current liabilities	26,112
Unearned revenue	32,396
Accrued interest	6,527
Noncurrent liabilities:	
Due within one year	427,000
Due in more than one year	4,635,221
Total liabilities	5,127,256
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions & post employment benefits	51,428
Total deferred inflows of resources	51,428
NET POSITION	
Net investment in capital assets	9,417,211
Restricted for:	
Capital projects and grants	1,114,956
Unrestricted	4,107,806
Total net position	\$ 14,639,973

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Activities
For the year ended December 31, 2018

Functions/programs	Expenses	Program Revenues			Net (expense) revenue and changes in net position
		Charges for services	Operating grants and contributions	Capital grants and contributions	
Governmental activities:					
General government	\$ 1,563,724	-	-	-	(1,563,724)
Public works	1,137,995	213,661	35,272	-	(889,062)
Protection and safety	1,434,658	-	-	-	(1,434,658)
Health and welfare	33,316	-	9,320	-	(23,996)
Cultural and recreation	367,796	23,936	15,666	-	(328,194)
Education	7,749,463	-	-	-	(7,749,463)
County taxes	1,318,020	-	-	-	(1,318,020)
Overlay/abatements	6,977	-	-	-	(6,977)
Interest expense	45,220	-	-	-	(45,220)
Capital and special projects	386,609	-	135,853	-	(250,756)
Total governmental activities	14,043,778	237,597	196,111	-	(13,610,070)

General revenues:

Property taxes, levied for general purposes	12,004,367
Excise taxes	1,349,550
Interest and fees on property taxes	13,665
Intergovernmental	208,555
Interest earned	18,509
Miscellaneous	480,207
Total general revenues	14,074,853

Change in net position 464,783

Net position - beginning of year, as restated 14,175,190

Net position - ending \$ 14,639,973

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Balance Sheet
Governmental Funds
December 31, 2018

	General	Road Projects	Mitchell Field Pier Demolition	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,998,086	-	-	-	4,998,086
Receivables:					
Taxes	302,652	-	-	-	302,652
Liens	52,717	-	-	-	52,717
Other	110,096	-	-	-	110,096
Interfund receivables	-	244,359	521,887	400,725	1,166,971
Prepaid items	20,444	-	-	-	20,444
Total assets	\$ 5,483,995	244,359	521,887	400,725	6,650,966
LIABILITIES					
Accounts payable and other liabilities	26,112	-	-	-	26,112
Unearned revenue - taxes paid in advance	15,330	-	-	-	15,330
Unearned revenue - other	17,066	-	-	-	17,066
Interfund payables	1,166,971	-	-	-	1,166,971
Total liabilities	1,225,479	-	-	-	1,225,479
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	200,000	-	-	-	200,000
Total deferred inflows of resources	200,000	-	-	-	200,000
FUND BALANCES					
Nonspendable:					
Prepaid Insurance	20,444	-	-	-	20,444
Restricted:					
Capital projects and grants	-	244,359	521,887	348,710	1,114,956
Assigned:					
General fund	684,202	-	-	-	684,202
Recreation	-	-	-	52,015	52,015
Unassigned	3,353,870	-	-	-	3,353,870
Total fund balances	4,058,516	244,359	521,887	400,725	5,225,487
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,483,995	244,359	521,887	400,725	

Amounts reported for governmental activities in the Statement of Net Position (Statement 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,208,211
Deferred outflows of resources related to pensions are not financial resources and, therefore, are not reported in the funds.	56,451
Amount receivable from sale of Harpswell Coastal Academy	70,000
Unavailable revenue - property taxes is not available to pay for current period expenditures and, therefore, is unavailable in the funds.	200,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
Bonds payable and capital lease obligation	(4,791,000)
Compensated absences payable	(21,154)
Accrued interest	(6,527)
Net pension and other postemployment benefits liabilities	(250,067)
Deferred inflows of resources related to pensions are not financial resources and, therefore, are not reported in the funds.	(51,428)

Net position of governmental activities	\$ 14,639,973
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See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2018

	General	Road Projects	Mitchell Field Pier Demolition	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 13,367,582	-	-	-	13,367,582
Intergovernmental	253,147	-	-	135,853	389,000
Miscellaneous	599,591	-	7,079	42,355	649,025
Total revenues	14,220,320	-	7,079	178,208	14,405,607
Expenditures:					
Current:					
General government	1,490,849	-	-	-	1,490,849
Public works	922,134	-	-	-	922,134
Protection and safety	1,314,229	-	-	-	1,314,229
Health and welfare	33,316	-	-	-	33,316
Cultural and recreation	300,514	-	-	47,656	348,170
Education	7,749,463	-	-	-	7,749,463
County taxes	1,318,020	-	-	-	1,318,020
Overlay/abatements	6,977	-	-	-	6,977
Debt service	468,381	-	-	-	468,381
Capital and special projects	547,771	22,956	2,747,405	135,295	3,453,427
Total expenditures	14,151,654	22,956	2,747,405	182,951	17,104,966
Excess (deficiency) of revenues over (under) expenditures	68,666	(22,956)	(2,740,326)	(4,743)	(2,699,359)
Other financing sources (uses):					
Proceeds from bond	3,500,000	-	-	-	3,500,000
Bond premium	112,963				112,963
Bond anticipation note repayment	(475,000)				(475,000)
Transfers (to) from other funds	(3,501,563)	200,000	3,137,963	163,600	-
Total other financing sources (uses)	(363,600)	200,000	3,137,963	163,600	3,137,963
Net change in fund balances	(294,934)	177,044	397,637	158,857	438,604
Fund balances, beginning of year	4,353,450	67,315	124,250	241,868	4,786,883
Fund balances, end of year	\$ 4,058,516	244,359	521,887	400,725	5,225,487

See accompanying notes to financial statements

TOWN OF HARPSWELL, MAINE
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended December 31, 2018

Net change in fund balances - total governmental funds (from Statement 4)	\$ 438,604
Amounts reported for governmental activities in the Statement of Activities (Statement 2) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital outlays	3,080,353
Disposals of capital assets, net	(13,535)
Depreciation expense	(413,559)
Deferred outflows of resources are a consumption of net position by the government that are applicable to a future reporting period and, therefore, are not reported in the funds.	
	(11,048)
Governmental funds report as revenues payments received from installment sales. In the Statement of Activities a receivable is reported when the installment contract is entered into and is reduced by payments.	
	(10,000)
Proceeds from long-term borrowing or capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This represents the proceeds (\$3,500,000) net of repayments (\$896,000).	
	(2,604,000)
Deferred inflows of resources are an acquisition of net position by the government that are applicable to a future reporting period and, therefore, are not reported in the funds.	
	(23,631)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. More specifically, this represents the increase in the Town's net pension and OPEB liabilities less the increase in accrued absences.	
	19,437
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the fund financial statements since future repayment does not require the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	
	2,162
Change in net position of governmental activities (see Statement 2)	\$ 464,783

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended December 31, 2018

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 13,305,339	13,305,339	13,367,582	62,243
Intergovernmental	228,954	228,954	253,147	24,193
Miscellaneous	548,400	548,400	599,591	51,191
Total revenues	14,082,693	14,082,693	14,220,320	137,627
Expenditures:				
Current:				
General government	1,501,107	1,517,107	1,490,849	26,258
Public works	918,504	918,504	922,134	(3,630)
Protection and safety	1,332,406	1,380,406	1,314,229	66,177
Health and welfare	35,230	35,230	33,316	1,914
Cultural and recreation	308,478	308,478	300,514	7,964
Education	7,749,463	7,749,463	7,749,463	-
County taxes	1,318,020	1,318,020	1,318,020	-
Overlay/abatements	112,065	112,065	6,977	105,088
Debt service	470,000	470,000	468,381	1,619
Capital and special projects	368,820	1,232,040	547,771	684,269
Total expenditures	14,114,093	15,041,313	14,151,654	889,659
Excess (deficiency) of revenues over (under) expenditures	(31,400)	(958,620)	68,666	1,027,286
Other financing sources (uses):				
Proceeds from bond	3,137,963	3,137,963	3,137,963	-
Transfer to / from other funds	(3,501,563)	(3,501,563)	(3,501,563)	-
Budgeted use of unassigned fund balance	425,000	425,000	-	(425,000)
Budgeted use of carryforward balances	-	943,448	-	(943,448)
Budgeted use of contingency	(30,000)	(46,228)	-	46,228
Total other financing sources (uses)	31,400	958,620	(363,600)	(1,322,220)
Net change in fund balance	-	-	(294,934)	(294,934)
Fund balance, beginning of year			4,353,450	
Fund balance, end of year			\$ 4,058,516	

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Required Supplementary Information
MainePERS - Consolidated Plan - Defined Benefit Pension Plan
Schedule of Proportionate Share
of the Net Pension Liability

	LAST 10 FISCAL YEARS*			
	2018	2017	2016	2015
<u>PLD Plan:</u>				
Proportion of the net pension liability (asset)	0.02%	0.02%	0.02%	0.02%
Proportionate share of the net pension liability (asset)	\$ 93,217	\$ 112,010	\$ 66,579	\$ 30,730
Covered-employee payroll	\$ 115,769	\$ 113,162	\$ 111,225	\$ 109,359
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	80.52%	98.98%	59.86%	28.10%
Plan fiduciary net position as a percentage of the total pension liability	86.43%	81.61%	88.27%	94.10%

* The amounts presented for each fiscal year were determined as of June 30, and are for those years for which information is available.

See accompanying notes to financial statements.

Schedule of Contributions

	LAST 10 FISCAL YEARS*			
	2018	2017	2016	2015
<u>PLD Plan:</u>				
Contractually required contribution	\$ 11,420	\$ 10,993	\$ 10,443	\$ 9,279
Contributions in relation to the contractually required contribution	(11,420)	(10,993)	(10,443)	(9,279)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 116,440	\$ 115,099	\$ 113,434	\$ 111,126
Contributions as a percentage of covered-employee payroll	9.81%	9.55%	9.21%	8.35%

* The amounts presented for each fiscal year were determined as of December 31.

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Required Supplementary Information
Schedule of Changes in the Total Health Plan OPEB Liability and Related Ratios
Last Ten Fiscal Years*

Maine Municipal Employees Health Trust (MMEHT)

2018

Total Health Plan OPEB Liability

Service Cost	\$ 11,727
Interest	6,349
Differences between expected and actual experience	-
Changes of assumptions	(14,521)
Benefit payments	(720)
Net change in Total Health Plan OPEB liability	(4,421)
	\$ (1,586)
Total Health Plan OPEB liability - beginning	\$ 158,436
Total Health Plan OPEB liability - ending	<u>\$ 156,850</u>
 Covered-employee payroll	 \$ 657,532
Total Health Plan OPEB liability as a percentage of covered-employee payroll	23.90%

**Only one year of information available*

See accompanying notes to required supplementary information.

TOWN OF HARPSWELL, MAINE
Notes to Required Supplementary Information
For the Year Ended December 31, 2018

MainePERS – Consolidated Plan – Defined Benefit Pension Plan

Changes of benefit terms

There were no changes in benefit terms in the Maine Public Employees Retirement System Plans.

Changes of assumptions

The actuarial assumptions used for the years ended June 30, 2017 and 2016 valuation were based on the results of an actuarial experience study for the period of June 30, 2012 through June 30, 2015.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2016 are as follows:

	June 30, 2017 and 2016 Actuarial Assumptions	June 30, 2015 Actuarial Assumptions
Investment Rate of Return	6.875% per annum, compounded annually	7.125% per annum, compounded annually
Inflation Rate	2.75%	3.50%
Annual salary increases, including inflation - PLD Consolidation Plan	2.75% - 9.00%	3.50% - 9.50%
Cost of living benefit increases	2.20%	2.55%
Long-term expected real reate of return on assets:		
US equities	5.7%	5.2%
Real estate	5.2%	3.7%
Infrastructure	5.3%	4.0%
Hard assets	5.0%	4.8%
Fixed income	2.9%	0.7 %
Mortality Rates	For active members and non-disabled retirees of the PLD Consolidated Plan, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table, for males and females, is used.	For active members and non-disabled retirees of the PLD Consolidated Plan, the RP2000 Tables projected forward to 2015 using Scale AA are used; the ages are set back two years for employees of the teacher plan. Mortality assumptions were also reviewed and updated in 2011 for the PLD Consolidated Plan, and in 2012 for the other Plans, based on actual demographic data of the Plans. For all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Net OPEB Liability –

Changes of benefit terms

Eligibility for employees was changed from age 50 in 2017 to age 55 in 2018.

Changes of assumptions

Changes of assumptions and other inputs reflect the changes in the discount rate each period. The following are the discount rates used in each period:

Fiscal Year	Discount Rate
2018	3.44%
2017	3.78%

Additionally, the funding method was changed from the Projected Unit Credit funding method in 2017 to Entry Age normal funding method in 2018.

TOWN OF HARPSWELL, MAINE
Required Supplementary Information
I.A.M. a multiemployer, cost-sharing defined benefit pension plan
Schedule of Employer's Required Contributions

For the years ended December 31:

2018	\$	11,952
2017		12,103
2016		11,427
2015		11,529
2014		11,198
2013		11,696
2012		13,909
2011		15,437
2010		15,475
2009		15,662
2008	\$	15,618

The reduction in required contributions between 2011 and 2013 resulted from the elimination in mid 2012 of one position which would have been eligible to participate in the Plan.

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements

THE REPORTING ENTITY

The Town of Harpswell, Maine, incorporated on January 25, 1758, currently operates under a Town Meeting-Selectmen form of government with a Town Administrator as the chief administrator of the Town. The Board consists of three members elected by the registered voters for three year terms.

In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may or may not be financially accountable and, as such, be includable within the Town's basic financial statements. The Town (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Town. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. Based on the application of these criteria, there are no other entities within the Town that should be included as part of these basic financial statements.

The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds (if any) are reported as separate columns in the fund financial statements.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, however, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, franchise fee, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Town reports the following major governmental funds:

The general fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The road projects fund accounts for financial resources used in major road rehabilitation projects.

The Mitchell Field pier demolition fund accounts for financial resources used to demolish the pier.

Additionally, the Town reports several nonmajor funds in the following fund categories:

Special revenue funds account for the proceeds of specific sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specified purposes.

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary or trust funds).

C. Budgetary Accounting

Each year a budget is adopted for the General Fund only, and is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The level of control (level at which expenditures may not exceed budget) is the Town meeting warrant article level.

The Town Meeting adopts the annual budget in March of that budget year and, accordingly, the previous year's Town Meeting authorizes the Board of Selectmen to spend 25% of the previous year's budget in the first three months of the current year.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Generally, all unexpended budgetary accounts lapse at the close of the fiscal year. However, portions of the General Fund fund equity can be assigned for future periods by the Selectmen. A comparison of budget to actual is presented in the financial statements on Statement 6. The difference between original budget and final budget amounts represent approved carryovers from prior years or appropriations from fund balance.

D. Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Town policy is that deposits can only be made in financial institutions insured by the F.D.I.C. or collateralized by the depository institution in the Town's name. The Town invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid and attain a reasonable market rate of return, while remaining within the guidelines approved by the Board of Selectmen.

E. Inventories of Supplies

Inventories of supplies are considered to be expenditures at the time of purchase rather than when consumed, and are not included in the general fund balance sheet.

F. Short-term Interfund Receivables/Payables

During the course of normal operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "interfund receivables or payables" on the balance sheet.

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide resources, construct assets and service debt. These transactions, if any, are reported as transfers.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Straight-line depreciation is used based on the following estimated useful lives:

Buildings and building improvements	25 to 50 years
Infrastructure	20 to 50 years
Equipment, vehicles and furniture	5 to 30 years

Capital assets, not being depreciated, includes land, construction in progress, easements and artwork associated with the former West Harpswell School property, which are not being depreciated as they are not exhaustible assets.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

H. Deferred Outflows/Inflows of Resources

In addition to assets, the governmental funds balance sheet sometimes reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

I. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. The face amount of debt is reported as other financing sources.

J. Fund Equity

In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner.

Assigned – resources that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – resources which have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

Committed fund balance amounts are determined by the legislative body which also would be required to modify or rescind those commitments. For assigned fund balance, management determines amounts to be carried forward for uncompleted projects previously authorized by the legislative body for specific purposes in the General Fund at year end. The Board of Selectmen votes to authorize assigned amounts.

Although not a formal policy, when both restricted and unrestricted resources are available for use, it is the Town's intent to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the Town's intent to use committed or assigned resources first, and then unassigned resources as they are needed.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. Fund Balance Policy

It is the Town's policy to maintain a minimum unassigned General Fund balance of one month, 8.33%, of operating expenditures, defined as total prior year's general fund expenditures less any expenditure made from reserve funds. The targeted balance for fiscal year-end is 2 months or 16.66%, and the maximum balance is not to exceed 25% of the operating expenditures, so long as cash flow needs are met. Any amount in excess of the targeted balance may be used to reduce the tax commitment or be appropriated as assigned or committed fund balance, or it may remain as unassigned Fund Balance. The Town's Board of Selectmen may recommend transfers to the Town that would reduce the balance below 25%, but no transfers shall be made that would reduce the balance to less than 8.33%. In the event that the unassigned fund balance drops below the minimum level, the Town will develop a plan, implemented through the annual budgetary process, to bring the balance to the targeted level over a period of no more than three (3) years.

L. Comparative Data / Restatements

Comparative total data for the prior period have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

M. Compensated Absences

Under terms of personnel policies of the Town, vacation leave is granted in varying amounts according to length of service. No sick leave is granted at the time of employee termination. Unused vacation leave is reported in the government-wide financial statements. No expenditure is reported for this amount on the fund financial statements unless due and payable.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Participating Local District (PLD) Consolidated Plan and additions to/deductions from the PLD Consolidated Plan's fiduciary net position have been determined on the same basis as they are reported by the PLD Consolidated Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Deferred Outflows and Inflows of Resources – Statement 1

In addition to assets, the statement of financial position will at times report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has one type of item, deferred outflows related to pensions and other postemployment benefits (OPEB). This item is reported in the statement of net position.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In addition to liabilities, the statement of financial position will at times report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applied to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows related to pensions and OPEB qualify for reporting in this category. This item is reported only in the statement of net position. All items in this category are deferred and recognized as inflows of resources in the period that the amounts become available.

P. Use of Estimates

Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Q. New pronouncements

For the fiscal year ended June 30, 2018, the Town has implemented Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

As a result of implementing GASB Statement No. 95, the Town has restated beginning net position in the government-wide statement of net position by \$158,436.

CASH AND CASH EQUIVALENTS

Deposits

Custodial Credit Risk-Town Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal policy with respect to custodial credit risk. As of December 31, 2018, the Town reported deposits of \$4,998,086 with a bank balance of \$5,169,146. All of the Town's bank balances were collateralized by FDIC insurance and therefore, none were exposed to custodial credit risk.

RECEIVABLE FROM HARPSWELL COASTAL ACADEMY

In 2015, the Town completed the sale of land and building to Harpswell Coastal Academy (HCA). The total consideration was \$150,000 with \$10,000 paid at closing. An additional \$40,000 was credited from lease payments. Harpswell Coastal Academy will pay the remainder to the Town in ten equal installments of \$10,000. The town received \$10,000 during 2018 which reduced its receivable from HCA.

PROPERTY TAX

The Town's property taxes for the current year were committed on August 3, 2018, on the assessed value listed as of April 1, 2018 for all real and personal property located in the Town. Taxes were due on September 17, 2018 and December 17, 2018; interest was charged at 6% on all unpaid taxes after those dates. Assessed values are periodically established by the Assessor at 100% of assumed market value. The Town has a certified ratio of 100%.

The following summarizes the 2018 and 2017 levy:

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

PROPERTY TAX, CONTINUED

	<u>2018</u>	<u>2017</u>
Assessed value:		
Real property	\$1,846,229,400	1,822,927,100
Personal property	5,520,500	5,427,700
Total valuation	1,851,749,900	1,828,354,800
Tax rate (per \$1,000)	6.48	6.46
Tax commitment	11,999,339	11,811,172
Less: collections and abatements (net of supplements)	(11,696,687)	(11,429,254)
Taxes receivable at December 31	\$302,652	381,918
Due dates	½ September 17, 2018 ½ December 17, 2018	½ September 15, 2017 ½ December 15, 2017
Interest rate on delinquent taxes	6.00%	6.00%
Collection rate	97.48%	96.77%

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$112,065 for the year ended December 31, 2018. Property taxes levied during the year are recorded as receivables at the time the levy is made. The receivables collected during the year and in the first sixty days following the end of the fiscal year are recorded as revenues. The remaining receivables are recorded as unavailable revenues. Tax payments received in advance of a levy are reported as unearned revenue.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid.

Property acquired by foreclosure for nonpayment of taxes is recorded at the amount of expired tax liens plus the costs involved in foreclosure. Liens and any current taxes on the same period are not included as part of the tax acquired property account until expiration of statutory time limits or time limit extensions granted by the Town's Board of Selectmen.

INTERFUND RECEIVABLES AND PAYABLES

Individual interfund receivables and payables balances at December 31, 2018 were as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General Fund	\$ -	1,166,971
Special Revenue Funds:		
Restricted grants	939	-
Recreation	52,015	-
Capital Projects Fund:		
Emergency vehicles	347,771	-
Road projects	244,359	-
Mitchell Field Pier	521,887	-
Totals	\$1,166,971	1,166,971

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	<u>2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>2018</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,164,271	3,118,002	-	5,282,273
Construction in progress	350,750	2,891,339	3,204,143	37,946
Other non-depreciable assets	281,900	-	-	281,900
Total capital assets not being depreciated	2,796,921	6,009,341	3,204,143	5,602,119
Capital assets, being depreciated:				
Buildings and improvements	4,237,097	-	-	4,237,097
Equipment, vehicles and furniture	2,837,689	189,014	103,115	2,923,588
Infrastructure	7,964,988	86,141	-	8,051,129
Total capital assets being depreciated	15,039,774	275,155	103,115	15,211,814
Less accumulated depreciation for:				
Buildings and improvements	2,452,209	90,409	-	2,542,618
Equipment, vehicles and furniture	1,148,110	161,723	89,580	1,220,253
Infrastructure	2,681,425	161,426	-	2,842,851
Total accumulated depreciation	6,281,744	413,558	89,580	6,605,722
Total capital assets being depreciated, net	8,758,030	(138,403)	13,535	8,606,092
Governmental activities capital assets, net	\$11,554,951	5,870,938	3,217,677	14,208,212

The 2017 Town Meeting authorized the demolition of an industrial pier located at Mitchell Field, the former site of a U.S. Navy fuel depot. The authorization approved funding for this project in an amount not to exceed \$5 million.

On November 30, 2017, the Town entered into a contract in the amount of \$3,032,515 for the pier's demolition. Two additional contracts for engineering and project management totaling \$165,000 were also signed. The project was completed in 2018 at a total cost, including financing, of \$3,098,154. These costs have been classified as a land improvement to the Mitchell Field property, a 119 acre deep-water site, and are not being depreciated.

Fire and rescue vehicles with a cost of \$2,008,608 and accumulated depreciation of \$713,463 have been leased under 10 or 20 year agreements to one of the three independent fire and rescue departments serving the Town. The cost of insuring and maintaining the vehicles is borne by the departments.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 57,643
Public works	215,861
Protection and safety	120,429
Cultural and recreation	19,626
Total depreciation expense – governmental activities	\$ 413,559

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SHORT-TERM DEBT

Tax Anticipation Note

Under the authority of Title 30-A, Section 5771 of the Maine Revised Statutes, as amended, a resolution was adopted by the Board of Selectmen at their April 19, 2018 meeting authorizing the Treasurer to borrow up to \$3,500,000 to be due on or before December 31, 2018. From May 9, 2018 to July 13, 2018, the Town made periodic draws on this note such that the maximum amount outstanding was \$2.5 million. The outstanding principal and interest was paid before December 31, 2018. The total interest paid on this note was \$17,216. Since there is no beginning or ending balance at December 31, 2017 and 2018, it has not been included in the debt note which follows.

Bond Anticipation Note

As further discussed in Capital Assets, the 2017 Town Meeting authorized the issuance of up to \$5 million in general obligation bonds or notes for demolition of the Mitchell Field pier which had been constructed by the U.S. Navy and transferred to the Town in 2001. During 2017, the Town entered into contracts relating to the pier's demolition and issued a General Obligation Bond Anticipation Note ("BAN") to be drawn on an as needed basis with the total principal amount not to exceed \$3.5 million to fund the project. The principal amount drawn on the BAN was payable on May 30, 2018 with interest accrued at a rate of 1.25%. From December 2017 through March, the Town drew \$1,125,000 on the BAN. On April 9, 2018 the Town issued General Obligation Bonds which were used in part to fully repay the BAN including interest of \$2,741. The 2018 General Obligation Bonds are more fully discussed in the Long-Term Liabilities note which follows.

LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2018, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ 1,700,000	3,500,000	415,000	4,785,000	365,000
Capital lease obligation	12,000	-	6,000	6,000	6,000
Compensated absences payable	20,212	48,667	47,725	21,154	-
Proportionate share of the net pension liability	112,010	-	18,793	93,217	-
OPEB net liability	158,436	-	1,586	156,850	-
Governmental activity long-term liabilities	\$ 2,002,658	3,548,667	489,104	5,062,221	371,000

The 2018 addition to bonds payable of \$3.5 million represents the General Obligation Bonds issued by the Town to finance the pier demolition project at Mitchell Field. The bonds sold at a premium of \$112,953. While the term of the bonds is 20 years, there are no principal repayments required until 2021.

The project was completed in September 2018 at a cost lower than anticipated and accordingly, the Town had unexpended proceeds, including bond premium, which may be used to pay interest and principal on the bonds. The first interest payment on the bonds in the amount of \$81,875 was made from these proceeds on December 15, 2018.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

LONG-TERM LIABILITIES, CONTINUED

Bonds payable at December 31, 2018 are comprised of the following:

	<u>Issue date</u>	<u>Maturity date</u>	<u>Amount issued</u>	<u>Interest rate</u>	<u>Balance December 31, 2018</u>
Governmental activities:					
2009 Ash Point road rehab	05/28/09	11/01/19	650,000	2.08-5.58%	65,000
2010 Emergency vehicles	10/28/10	11/01/20	600,000	2.00-5.50%	120,000
2011 Capital road project	05/26/11	11/01/21	800,000	2.12-5.62%	240,000
2013 Capital road project	05/23/13	11/01/23	1,000,000	.60-2.38%	500,000
2014 Capital road project	8/20/14	8/20/24	600,000	2.30%	360,000
2018 Mitchell Field pier	04/09/18	12/15/38	3,500,000	3.00-5.00%	3,500,000
Total bonds payable					\$4,785,000

During 2013, the Town entered into a capital lease to fund, in part, the purchase of certain media equipment. As of December 31, 2018, the balance of \$6,000 represents the principal obligation under the capital lease and will be repaid in one final installment of \$6,000. Interest accrues at a rate per annum of 3.02% and is payable annually. The principal payments will be funded by annual grants to the Town by the holder of its cable franchise.

The annual requirements to amortize outstanding debt, including capital lease obligations, as of December 31, 2018 are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	365,000	144,232	509,232
2020	300,000	138,157	438,157
2021	435,000	131,803	566,803
2022	355,000	116,930	471,930
2023	355,000	103,553	458,553
2024-2038	2,975,000	715,581	3,690,581
Total	\$4,785,000	1,350,256	6,135,256

All governmental activities long-term debt requirements are paid by the general fund.

Debt authorized but unissued – The Town is authorized to borrow up to \$50,000 for failed septic system remediation.

STATUTORY DEBT LIMIT

The laws of the State of Maine limit types of municipal borrowing to specific percentages of the State valuation of the municipality. At December 31, 2018, the Town was in compliance with these restrictions.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

OVERLAPPING DEBT

The Town's proportionate share of debt of all local government units which provide services within the Town's boundaries, and which must be borne by properties in the Town is summarized as follows:

<u>Units</u>	<u>Net debt outstanding at December 31, 2018</u>	<u>Percentage applicable to the Town</u>	<u>Town's proportionate share of debt</u>
Cumberland County	\$36,379,000	4.31%	1,566,290
MSAD 75 / RSU 75	8,180,597	37.16%	3,039,910

The Town's proportionate share of the County and District debt is paid through annual assessments.

BUDGETED USE OF SURPLUS

During the year ended December 31, 2018, the Town budgeted to utilize prior year unassigned fund balance as a budgeted use of surplus. The amount consists of the following:

2017 carry forward balance	\$ 943,448
Use of surplus – current year:	
Pott's point improvements	25,000
Contingency	30,000
Reduction of tax commitment	370,000
Total	\$1,368,448

INTERFUND TRANSFERS

Individual fund transfers for the year ended December 31, 2018 were as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
General fund	\$ -	3,501,563
Special revenue funds:		
Recreation	13,600	-
Capital project funds:		
Mitchell Field pier demolition	3,137,963	
Road projects	200,000	-
Emergency vehicles	150,000	-
Total capital projects fund	3,487,963	-
Total transfers	\$3,501,563	3,501,563

These transfers were budgeted transfers to fund certain activities.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

RESTRICTED GRANTS

The Town classifies grant awards as restricted grants in the Town's special revenue fund. The December 31, 2018 fund balance of restricted grants consisted of the following awards:

<u>Grant Award</u>	Balance beginning of year	Revenues	Expenditures	Balance end of year
Harpswell Aging at Home - CDBG	-	48,067	48,067	-
Orr's/Bailey's Fire Dept - CDBG	-	47,173	47,173	-
Sea Level Rise - Coastal Communities	-	17,059	17,059	-
State Harbor Mng Access-Mackerel	-	15,000	15,000	-
Pott's Point – MDOT	-	3,566	3,566	-
Mitchell Field Community Garden	381	2,700	3,081	-
State Volunteer Firefighter	-	1,188	1,188	-
USM Picture Post	-	1,100	161	939
Total restricted grants	\$8,050	135,853	135,295	\$939

ASSIGNED FUND BALANCES

At December 31, 2018, assigned fund balance consisted of the following:

<u>Fund</u>	<u>Assigned balance</u>
Appropriation carryovers:	
Special Purpose Funds:	
Energy Conservation	\$ 1,431
Flood plain map revisions	15,178
Land purchase, map 42, lot 6	3,318
Harpswell Physical Education Association	3,000
Harpswell Radio Project	750
Capital Reserves:	
Town facilities	46,078
Office equipment	22,500
Boat/motor replacement	3,429
Recycling	92,640
Vehicles & equipment replacement	26,415
Emergency communication equipment	26,521
Dry hydrant development	12,780
Land acquisition and property improvement	81,146
Emergency services building planning	94,797
Mitchell Field capital	174,971
Failed septic system	22,649
Other Reserves:	
Property tax assistance program	1,985
Conservation fund	5,000
Self-insurance	1,481
Heating assistance	8,393
Assessing records update	20,235

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

ASSIGNED FUND BALANCES, CONTINUED

Plus contingency	<u>7,920</u>
Assigned fund balances subtotal	672,617
Assigned revenues:	
Heating assistance	9,785
<u>Mitchell Field boat ramp or bandstand</u>	<u>1,800</u>
<u>Total assigned fund balance – General Fund</u>	<u>\$684,202</u>

NET POSITION

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bond and capital leases obligations. The Town's net investment in capital assets was calculated as follows at December 31, 2018:

Capital assets	\$ 20,813,933
Accumulated depreciation	(6,605,722)
<u>Bonds payable and capital lease obligation</u>	<u>(4,791,000)</u>
<u>Total net investment in capital assets</u>	<u>\$ 9,417,211</u>

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

RISK MANAGEMENT

The Town is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the Town either carries commercial insurance or participates in a public entity risk pool. Currently, the Town participates in a public entity risk pool sponsored by the Maine Municipal Association for Workers' Compensation coverage. Based on these coverages, no known liabilities exist at December 31, 2018.

CONTINGENT LIABILITIES

Litigation -The Town is subject to certain legal proceedings which arise in the normal course of business. In the opinion of management, the Town has defensible positions in any/all pending cases. Further, any future liabilities are covered by insurance or will not materially affect the financial position of the Town.

State and Federal Grants – The Town participates in numerous state and federal programs which are governed by various rules and regulations imposed by the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Town has not complied with the rules and regulations governing the grants, refunds of any moneys received may be required. There are no material contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the International City Management Association Retirement Corporation.

The deferred compensation plan is available to all full and regular part time employees of the Town who work 20 hours or more per week on a regularly scheduled basis and who are not already participating in another plan. Under the plan, employees may elect to defer a portion of their salary and avoid paying income taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The Town's computed contribution to this plan for the years ended December 31, 2018, 2017 and 2016 was \$29,683, 25,624, and \$26,135, respectively. Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

RETIREMENT PLAN – RECYCLING CENTER EMPLOYEES

The IAM National Pension Fund (the Plan) is a multiemployer, cost-sharing defined benefit pension plan governed by a joint Board of Trustees consisting of an equal number of members representing Labor and Management. Non-salaried employees of the Town's recycling center (three employees) are members of a collective bargaining unit whose contract with the Town provides for those employees' participation in the Plan.

The Town contributes a fixed rate, currently \$2.05, for each hour reported by the employee once the probationary period has been completed, but not later than sixty days after the date of hire. No voluntary contributions by the employees are allowed under the Plan. The contribution rate is established through the collective-bargaining agreement as approved by the Board of Selectmen. The Town's contributions, and therefore its expense, for the years ended December 31, 2018, 2017 and 2016 totaled \$11,952, \$12,103, and \$11,427, respectively.

An employee's monthly pension benefit is determined by the Plan, based on years of credited service, the contribution rate paid by the employer, age at retirement and the form of payment selected by the employee. The Town has no ability to establish or amend benefits under the Plan.

The funds contributed by the Town to the Plan are held in trust by the I.A.M. National Pension Fund for the exclusive use of benefit participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

The I.A.M. National Pension Fund prepares an Annual Funding Notice which is available at www.iamnpf.org. The Fund's Annual Report is filed with the Department of Labor and may be obtained at www.efast.dol.gov.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN

Plan Description

Certain Town employees contribute to the Maine Public Employees Retirement System (MainePERS), a cost-sharing multiple-employer defined benefit pension plan established by the Maine State Legislature. Title 5 of the Maine Revised Statutes Annotated assigns the authority to establish and amend benefit provisions to the Participating Local District (PLD) Consolidated Plan's advisory group, which reviews the terms of the plan and periodically makes recommendations to the Legislature to amend the terms. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained online at www.mainebers.org or by contacting the System at (800) 451-9800.

Benefits Provided

The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for employees of PLDs). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. For PLD members, normal retirement age is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by contract with PLD employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%.

Contributions

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. The Town's plan members are part of the PLD's plan "AC" and are required to contribute 8.0% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The current rate is 10% of covered payroll. The contribution rates of plan members and the Town are established and may be amended by the Maine Public Employee Retirement Systems advisory group. The Town's contribution to the MainePERS PLD Consolidated Plan for the year ended December 31, 2018 was \$11,420.

Effective March 14, 1998, this pension plan is no longer offered to new Town employees. Those employees already in the plan may continue under the same terms or may terminate and join the Town's deferred compensation plan.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the Town reported a liability of \$93,217 for its proportionate share of the net pension liabilities for the plan. The net pension liabilities were measured as of June 30, 2017 (the most recent period available), and the total pension liabilities used to calculate the net pension liabilities was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liabilities were based on a projection of the Town's long-term share of contributions to each pension plan relative to the projected contributions of all PLDs, actuarially determined. At June 30, 2017, the Town's proportion was 0.022767%, which was an increase of 0.001686% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2018, the Town recognized net pension expense of \$3,683. At December 31, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PLD Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 4,479
Changes of assumptions	7,932	-
Net difference between projected and actual earnings on pension plan investments	32,125	34,688
Changes in proportion and differences between contributions and proportionate share of contributions	5,389	68
Contributions subsequent to the measurement date	11,005	-
	<u>\$ 56,451</u>	<u>\$ 39,235</u>

\$11,005, reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PLD Plan
Year ended June 30:	
2018	\$ 1,165
2019	10,768
2020	625
2021	(6,347)
Thereafter	-

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2017. Effective with the Plan's 2016 actuarial valuation, various assumptions underlying the valuation were revised. The demographic assumptions are based on an experience study covering the period from June 30, 2012 through June 30, 2015. The investment return and inflation assumptions were revised at the advice of the Plan's investment consultants. The COLA, salary increase, termination, retirement, disability, mortality and disability mortality assumptions were revised based on the experience study. The following methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements: the normal cost rate and the unfunded actuarial liability (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his or her expected future salary. The normal cost for each employee is the product of his or her pay and his or her normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the PLD Consolidated Plan is amortized on a level percentage of payroll using a method where a separate twenty-year closed period is established annually for the gain or loss for that year.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2017 are as follows:

Investment Rate of Return - For the PLD Plan, 6.875% per annum, compounded annually.

Salary Increases, Merit and Inflation - Members of the consolidated plan for PLDs, 2.75% to 9.00% per year.

Mortality Rates – For participating local districts, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table, for males and females, is used.

Cost of Living Benefit Increases - 2.20% for participating local districts.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as June 30, 2017 are summarized in the following table. Assets for the defined benefit plan are comingled for investment purposes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Equities	30.0%	6.0%
US Government	7.5%	2.3%
Private Equity	15.0%	7.6%
Real Assets:		
Real Estate	10.0%	5.2%
Infrastructure	10.0%	5.3%
Natural Resources	5.0%	5.0%
Traditional Credit	7.5%	3.0%
Alternative Credit	5.0%	4.2%
Diversifiers	<u>10.0%</u>	5.9%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the collective total pension liability was 6.875% for 2017. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability/(asset) as of June 30, 2017 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 6.875% for the PLD Consolidated Plan.

	<u>1%</u> <u>Decrease</u>	<u>Discount</u> <u>rate</u>	<u>1%</u> <u>Increase</u>
<u>PLD Plan:</u>			
Discount rate	5.875%	6.875%	7.875%
Town's proportionate share of the net pension liability	\$ 187,021	\$ 93,217	\$ 22,596

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

Each employer's share of the collective net pension liability is equal to the collective net pension liability multiplied by the employer's proportionate share as of June 30, 2017 as shown in the schedules of employer and non-employer contributing entity allocations. Changes in net pension liability are recognized in pension expense for the year ended June 30, 2017 with the following exceptions:

Differences between Expected and Actual Experience

The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2016, this was 4 years for the PLD Consolidated Plan.

Differences between Projected and Actual Investment Earnings

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. The actuarial assumptions used for the year ended June 30, 2016 valuation were based on the results of an actuarial experience study for the period of June 30, 2012 through June 30, 2015. Please refer to the Actuarial Methods and Assumptions section for information relating to changes of assumptions. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

Pension Plan Fiduciary Net Position

Additional financial and actuarial information with respect to the Plan can be found in the MainePERS 2017 Comprehensive Annual Financial Report available online at www.mainebers.org or by contacting the System at (800) 451-9800.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

OTHER POSTEMPLOYMENT BENEFITS

The Town sponsors a post-retirement benefit plan providing health insurance to retiring employees (hereafter referred to as the Health Plan). The plan is a single-employer defined benefit OPEB plan administered by the Maine Municipal Employees Health Trust (MMEHT). No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Under the Health Plan, MMEHT provides healthcare and life insurance benefits for retirees and their dependents. Town employees over the age of 55 with 5 years of continuous service are allowed to participate in the plan. Retirees that are designated in a plan pay 100% of the single coverage premium and 100% of the family coverage premium. For those Town employees eligible for Medicare (post-65 Retiree Plan), the plan is offered in conjunction with Medicare Parts A and B and the Companion Plan B.

Employees Covered by Benefit Terms – At December 31, 2018, the following employees were covered by the Health Plan benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>17</u>
Total	<u><u>19</u></u>

The Town's Health Plan OPEB liability of \$156,850 was measured as of January 1, 2018, and was determined by an actuarial valuation as of that date.

Changes in the Total Health Plan OPEB Liability:

	<u>Health Plan OPEB Liability</u>
Balance at December 31, 2017	\$ 158,436
Changes for the year:	
Service Cost	11,727
Interest	6,349
Differences between expected and actual experience	(14,521)
Changes in assumptions	(720)
Benefit payments	<u>(4,421)</u>
Net Changes	<u>(1,586)</u>
Balance at December 31, 2018	<u><u>\$ 156,850</u></u>

For the year ended December 31, 2018, the Town recognized OPEB expense of \$10,607, related to the Health Plan. At December 31, 2018, The Town reported deferred outflows of resources and deferred inflows of resources related to the Health Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 11,617
Changes of assumptions or other inputs	<u>-</u>	<u>576</u>
	<u><u>\$ -</u></u>	<u><u>\$ 12,193</u></u>

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Health Plan OPEB will be recognized in OPEB expense as follows:

<u>Year Ending December 30,</u>	
2019	\$ (3,048)
2020	(3,048)
2021	(3,048)
2022	(3,049)
2023	-
Thereafter	-
	\$ 12,193

The total OPEB liability in the January 1, 2018 actuarial valuation for the Health Plan was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>Health Plan</u>
Inflation	3.00%
Salary increases	2.75%
Discount Rate	3.44%
Healthcare cost trend rates (applied in FYE 2018 grading over 14 years to 4% per annum)	
Pre-Medicare Medical:	8.20%
Pre-Medicare Drug:	9.60%
Medicare Medical:	4.93%
Medicare Drug:	9.60%

Retirees' share of the benefit related costs 100.00% of projected health insurance premiums

Mortality rates for the Health Plan were based on the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females.

The actuarial assumptions used in the January 1, 2018 valuation for the Health Plan were based on the results of an actuarial experience study for the period June 30, 2012 through June 30, 2015.

The discount rate for the Health Plan was based upon high quality AA/Aa or higher bond yields in effect for 20 years, tax-exempt general obligation municipal bonds using the Bond Buyer index.

Sensitivity of the Total Health Plan OPEB Liability to Changes in the Discount Rate: The following presents the Town's total OPEB liability related to the Health Plan calculated using the discount rate of 3.44%, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.44%) or 1 percentage-point higher (4.44%) than the current rate:

	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB Liability	\$ 177,255	\$ 156,850	\$ 139,873

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Total Health Plan OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the Town's total OPEB liability related to the Health Plan calculated using the healthcare cost trend rates as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease	Trend Rates	1% Increase
Total OPEB Liability	\$ 139,750	\$ 156,850	\$ 177,565

OPEB Plan Fiduciary Net Position: Detailed information about both the PLD and SET OPEB plan's fiduciary net positions are available in a separately issued MainePERS financial report.

COMMITMENTS

At December 31, 2018, the Town was obligated under contracts for law enforcement, marine patrol, emergency dispatch, dedicated paramedic, and snow removal services in amounts totaling approximately \$550,619 for various periods through June 30, 2019.

GENERAL FUND

The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds.

TOWN OF HARPSWELL, MAINE
Comparative Balance Sheets
General Fund
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 4,998,086	4,826,967
Receivables:		
Taxes	302,652	381,918
Tax liens and acquired properties	52,717	42,579
Other	110,096	103,123
Prepaid items	20,444	17,830
Total assets	\$ 5,483,995	5,372,417
LIABILITIES		
Accounts payable and other liabilities	26,112	87,411
Unearned revenue - taxes paid in advance	15,330	284,898
Unearned revenue - other	17,066	13,225
Interfund payables:		
Special Revenue	52,954	46,850
Capital Projects	1,114,017	386,583
Total liabilities	1,225,479	818,967
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	200,000	200,000
Total deferred inflows of resources	200,000	200,000
FUND BALANCE		
Nonspendable:		
Prepaid Insurance	20,444	17,830
Committed:		
	-	-
Assigned	684,202	946,934
Unassigned	3,353,870	3,388,686
Total fund balance	4,058,516	4,353,450
Total liabilities, deferred inflows of resources, and fund balance	\$ 5,483,995	5,372,417

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting)
For the year ended December 31, 2018

		Budgeted amounts			Variance positive (negative)
		Original	Final	Actual	
Revenues:					
Taxes:					
Property taxes	\$	11,999,339	11,999,339	12,004,367	5,028
Change in unavailable revenue		-	-		-
Interest and fees on property taxes		15,000	15,000	13,665	(1,335)
Excise taxes and registration fees		1,291,000	1,291,000	1,349,550	58,550
Total taxes		13,305,339	13,305,339	13,367,582	62,243
Intergovernmental:					
State revenue sharing		60,000	60,000	71,091	11,091
Local road assistance URIP		35,000	35,000	35,272	272
Homestead exemption and BETE		108,954	108,954	108,981	27
Tree growth		10,000	10,000	10,467	467
General assistance		7,000	7,000	9,320	2,320
Veterans exemption		3,000	3,000	3,150	150
Other		5,000	5,000	14,866	9,866
Total intergovernmental		228,954	228,954	253,147	24,193
Miscellaneous:					
Interest earned		9,500	9,500	18,509	9,009
Copies and records		3,000	3,000	3,878	878
Cable TV franchise fee		96,000	96,000	92,299	(3,701)
Cable technology & capital equipment		11,400	11,400	11,400	-
Licenses, fees and permits		204,000	204,000	198,531	(5,469)
Fines		3,000	3,000	3,396	396
Recycling center and disposal fees		175,000	175,000	213,661	38,661
Donations and gifts		10,000	10,000	21,435	11,435
Receipts from Harpswell Coastal Academy		10,000	10,000	10,000	-
Tower lease		22,000	22,000	23,144	1,144
Unclassified		4,500	4,500	3,338	(1,162)
Total miscellaneous		548,400	548,400	599,591	51,191
Total revenues	\$	14,082,693	14,082,693	14,220,320	137,627

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting), Continued
For the year ended December 31, 2018

Article		Balances carried forward	Budgeted amounts		Actual	Variance positive (negative)	Balances carried forward
#	Account		Original	Final			
Expenditures:							
General government:							
8	Elected officials	\$ -	117,803	117,803	117,046	757	-
9	General administration:						1
9	Administration	-	271,756	271,756	252,284	19,472	-
9	Public information	-	9,000	9,000	8,386	614	-
9	Risk management	-	89,978	89,978	93,507	(3,529)	-
9	Legal services	-	50,000	50,000	96,436	(46,436)	-
10	Memberships	-	16,188	16,188	16,188	-	-
11	Assessing	-	84,003	84,003	80,056	3,947	-
12	Tax collector's office	-	36,795	36,795	35,772	1,023	-
13	Town clerk's office	-	55,658	55,658	59,974	(4,316)	-
14	Treasurer	-	31,383	31,383	30,247	1,136	-
15	Code enforcement	-	138,129	138,129	136,398	1,731	-
16	Planning	6,000	71,931	77,931	62,071	15,860	-
22	Employee benefits	-	400,388	400,388	370,192	30,196	-
23	Boards and committees	-	7,270	7,270	4,769	2,501	-
Operations and maintenance:							
26	Municipal buildings and property	-	75,000	75,000	80,067	(5,067)	-
26	Old town house and commons	-	9,000	9,000	5,431	3,569	-
26	Town dock	-	5,500	5,500	6,507	(1,007)	-
26	Town lands and landings	10,000	20,000	30,000	24,661	5,339	-
26	Cedar/Robinhood Beach easement	-	4,100	4,100	3,632	468	-
24	Cemeteries	-	7,225	7,225	7,225	-	-
Total general government		16,000	1,501,107	1,517,107	1,490,849	26,258	-
Public works:							
31	Snow removal	-	466,412	466,412	473,333	(6,921)	-
31	Maintenance, signs, salary & travel	-	86,561	86,561	82,210	4,351	-
17	Recycling and transfer station	-	365,531	365,531	366,591	(1,060)	-
Total public works		-	918,504	918,504	922,134	(3,630)	-
Protection and safety:							
36,38	Emergency services	-	186,475	186,475	186,168	307	-
34	Emergency services - fire assistance	48,000	166,003	214,003	157,319	56,684	-
26	Emergency services building	-	4,000	4,000	5,968	(1,968)	-
33	Contracted paramedic services	-	283,111	283,111	283,105	6	-
39	Street lighting	-	26,000	26,000	26,483	(483)	-
19	Harbor management	-	58,378	58,378	53,833	4,545	-
18	Animal control	-	26,387	26,387	24,196	2,191	-
40,41	Law enforcement and communication	-	381,853	381,853	381,853	-	-
45	Marine consultant & conservation mng	-	4,500	4,500	349	4,151	-
42,44	Shellfish conservation contract & boat	-	195,699	195,699	194,955	744	-
Total protection and safety		48,000	1,332,406	1,380,406	1,314,229	66,177	-
Health and welfare:							
CF	Gift Cards	-	-	-	125	(125)	-
46	Health and welfare	-	35,230	35,230	33,191	2,039	-
Total health and welfare		-	35,230	35,230	33,316	1,914	-
Cultural and recreation:							
47-49	Cultural and education programs	-	51,845	51,845	47,870	3,975	3,750
3	Curtis Memorial Library	-	141,900	141,900	141,900	-	-
51	Harpswell Community Broadcasting	-	68,000	68,000	68,000	-	-
20	Recreation - general	-	46,733	46,733	42,744	3,989	-
Total cultural and recreation		-	308,478	308,478	300,514	7,964	3,750
1 Contingency transfers (\$38,308) approved by selectmen to cover general administration, clerk, roads, recycling, and street lights article							

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting), Continued
For the year ended December 31, 2018

For the year ended December 31, 2010							
Article		Balances	Budgeted amounts			Variance	Balances
#	Account	carried forward	Original	Final	Actual	positive (negative)	carried forward
Expenditures, continued:							
CF,57	A. Dennis Moore Recycling / Transfer St.	\$ 99,140	90,000	189,140	96,500	92,640	92,640
Other capital / carryovers / reserves:							
CF	Dry hydrant development	12,780	-	12,780	-	12,780	12,780
CF,57	Land acquisition & Town property improvement	80,112	65,000	145,112	63,966	81,146	81,146
CF,57	Vehicle replacement & vehicle equipment	41,690	40,000	81,690	55,275	26,415	26,415
CF	Update of assessing records	20,235	-	20,235	-	20,235	20,235
CF,57	Emergency communication equipment	24,021	2,500	26,521	-	26,521	26,521
CF	Land acquisition map 42, lot 6	3,318	-	3,318	-	3,318	3,318
CF,43	Boat and motor replacement	38,243	45,000	83,243	79,814	3,429	3,429
CF,57	T/O & Facilities Improvements	20,914	50,000	70,914	24,836	46,078	46,078
CF,57	Office equipment	2,500	20,000	22,500	-	22,500	22,500
CF	Conservation fund	5,000	-	5,000	-	5,000	5,000
CF,55	Cable related technology account	957	5,400	6,357	6,357	-	-
53	Public, educational & governmental equipment	-	6,000	6,000	6,000	-	-
CF	Self insurance reserve	1,538	-	1,538	57	1,481	1,481
CF	Heating assistance	54,564	-	54,564	46,171	8,393	18,178
CF	Failed septic systems	22,649	-	22,649	-	22,649	22,649
54	PEG Equipment warranty	-	6,400	6,400	6,400	-	-
CF	FEMA Consultant	74,566	-	74,566	59,388	15,178	15,178
CF	Energy Conservation	1,431	-	1,431	-	1,431	1,431
CF,56	Property tax assistance program	4,709	5,000	9,709	7,724	1,985	1,985
25	Browntail moth research	-	9,570	9,570	9,550	20	-
CF	Orr's/Bailey's Island Fire Dept renovations	30,914	-	30,914	24,886	6,028	-
CF	Emergency services building	95,498	-	95,498	701	94,797	94,797
CF,30	Mitchell Field capital reserve	213,658	-	213,658	38,687	174,971	174,971
28	Mitchell Field - operations	-	23,950	23,950	19,549	4,401	-
CF	Mitchell Field - ramp or bandstand donation	1,800	-	1,800	-	1,800	1,800
CF	Mitchell Field - water tower eval	7,983	-	7,983	-	7,983	-
CF	Mitchell Field - contract planning	5,000	-	5,000	1,910	3,090	-
Total capital and special projects		863,220	368,820	1,232,040	547,771	684,269	672,532
58	Debt service	-	470,000	470,000	468,381	1,619	-
STM	Contingency	16,228	30,000	46,228	-	46,228	7,920
Total budgeted expenditures		943,448	4,964,545	5,907,993	5,077,194	830,799	684,202
Other expenditures:							
Educational appropriation		-	7,749,463	7,749,463	7,749,463	-	-
County tax		-	1,318,020	1,318,020	1,318,020	-	-
Overlay / abatements		-	112,065	112,065	6,977	105,088	-
Total other expenditures		-	9,179,548	9,179,548	9,074,460	105,088	-
Excess (deficiency) of revenues over							
(under) expenditures		(943,448)	(61,400)	(1,004,848)	68,666	1,073,514	(684,202)
Other financing sources (uses):							
Proceeds from bonds, including bond premium		-	3,137,963	3,137,963	3,137,963	-	-
Transfer to Capital Projects - Mitchell Field Pier		-	(3,137,963)	(3,137,963)	(3,137,963)	-	-
37	Transfer to Emergency Vehicles	-	(150,000)	(150,000)	(150,000)	-	-
32	Transfer to Capital Projects - road projects	-	(200,000)	(200,000)	(200,000)	-	-
21	Transfer to Recreation fund - programs	-	(13,600)	(13,600)	(13,600)	-	-
STM	Use of unassigned fund balance - land improvements	-	25,000	25,000	-	(25,000)	-
STM	Use of unassigned fund balance - contingency	-	30,000	30,000	-	(30,000)	-
67	Use of unassigned fund balance - budget	-	370,000	370,000	-	(370,000)	-
59	Use of carryforward balances	943,448	-	943,448	-	(943,448)	-
Total other financing sources (uses)		943,448	61,400	1,004,848	(363,600)	(1,368,448)	-
Net change in fund balance		-	-	-	(294,934)	(294,934)	(684,202)
Fund balance, beginning of year					4,353,450		
Fund balance, end of year				\$ 4,058,516			

1 Contingency transfers (\$38,308) approved by selectmen to cover general administration, clerk, roads, recycling, and street lights articles.

2 Balances carried forward include 2018 revenues received for these purposes

3 Revenue received directly applied to capital lease payment

OTHER NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR SPECIAL REVENUE FUNDS

Special revenue funds account for specific resources, the expenditure of which are restricted by law or administrative action for particular purposes.

Special revenue funds are established for the following purposes:

Restricted Grants

The purpose of this fund is to segregate state, federal and private awards whose purpose is restricted by the agency providing the funds.

Recreation

To account for various recreation fees and related expenditures.

NONMAJOR CAPITAL PROJECT FUNDS

Capital projects funds are established to account for resources obtained and expended for the acquisition of major capital facilities and projects.

The Town's individual capital project funds were established for the following purposes:

Emergency Vehicles

To accumulate funds in a dedicated interest bearing account to ultimately purchase emergency vehicles.

TOWN OF HARPSWELL, MAINE
Other Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2018

	<u>Special Revenues</u>		<u>Capital Projects</u>	
	<u>Restricted Grants</u>	<u>Recreation</u>	<u>Emergency Vehicles</u>	<u>Totals</u>
ASSETS				
Interfund receivables	\$ 939	52,015	347,771	400,725
Total assets	\$ 939	52,015	347,771	400,725
Fund balances:				
Restricted:				
Capital projects and grants	939	-	347,771	348,710
Assigned:				
Recreation	-	52,015	-	52,015
Total fund balances	\$ 939	52,015	347,771	400,725

TOWN OF HARPSWELL, MAINE
Other Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended December 31, 2018

	Special Revenues		Capital Projects	
	Restricted Grants	Recreation	Emergency Vehicles	Totals
Revenues:				
Grants	\$ 135,853	-	-	135,853
Interest earned	-	-	2,753	2,753
Bandstand donations	-	15,666	-	15,666
Charges for services	-	23,936	-	23,936
Total revenues	135,853	39,602	2,753	178,208
Expenditures:				
For specified purpose	135,295	38,462	-	173,757
Bandstand incl performances	-	8,449	-	8,449
Capital outlay	-	745	-	745
Total expenditures	135,295	47,656	-	182,951
Excess (deficiency) of revenues over (under) expenditures	- 558	(8,054)	2,753	(4,743)
Other financing sources:				
Transfers from general fund	-	13,600	150,000	163,600
Total other financing sources	-	13,600	150,000	163,600
Net change in fund balances	558	5,546	152,753	158,857
Fund balances, beginning of year	381	46,469	195,018	241,868
Fund balances, end of year	\$ 939	52,015	347,771	400,725

SCHEDULE

TOWN OF HARPSWELL, MAINE
Schedule of Taxes and Liens Receivable
For the year ended December 31, 2018

Year	Balance at 12/31/17	2018 Commitment	Supplemental Taxes	Collections	Abatements	Balance at 12/31/18
pre 2002	\$ -	-	-	-	-	-
2005	91	-	-	-	-	91
2006	152	-	-	-	-	152
2007	77	-	-	-	-	77
2008	82	-	-	-	-	82
2009	165	-	-	-	-	165
2010	177	-	-	-	-	177
2011	198	-	-	-	-	198
2012	396	-	-	-	-	396
2013	727	-	-	(417)	-	310
2014	1,004	-	-	(754)	-	250
2015	3,148	-	-	(906)	-	2,242
2016	36,362	-	-	(34,134)	-	2,228
2017	381,918	-	-	(335,569)	-	46,349
2018	-	11,999,339	5,028	(11,694,738)	(6,977)	302,652
	424,497	11,999,339	5,028	(12,066,518)	(6,977)	355,369
						Taxes receivable 302,652
						Tax liens and acquired properties 52,717
Total						\$ 355,369



Proven Expertise and Integrity

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Selectmen
Town of Harpswell
Harpswell, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Harpswell, Maine as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town of Harpswell, Maine's basic financial statements, and have issued our report thereon dated January 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harpswell, Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Harpswell, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Harpswell, Maine's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Harpswell, Maine's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RHR Smith & Company

Buxton, Maine
January 31, 2019